



Risk and Audit Committee

Agenda Item 8a

June 18, 2019

Item Name: Third Party Valuation and Certification of the Contracting Public Agency Plans as of June 30, 2017

Program: Audit Services

Item Type: Information

Executive Summary

The third-party actuarial firm, Buck Global, LLC (Buck), completed its independent review of the actuarial valuations of the contracting public agency plans as of June 30, 2017. Overall, Buck found the actuarial process followed by CalPERS actuarial staff is thorough, complete, and complies with applicable Actuarial Standards of Practice (ASOP). The report summarizing the review and including comments and recommendations is attached as Attachment 1 of this agenda item.

Strategic Plan

This agenda item supports the Strategic Plan Fund Sustainability Goal – Strengthen the long-term sustainability of the pension plan.

Background

Under the California Constitution, the CalPERS Board of Administration (Board) has plenary authority and fiduciary responsibility to provide for actuarial services. The CalPERS Chief Actuary advises the Board and directs the activities of the CalPERS actuarial staff. The Board also retains the services of an outside actuarial firm to review the work of the CalPERS actuarial staff and to certify that such work complies with actuarial professional standards. The Board's Delegation Resolution RA-17-01 includes the delegation to the Risk and Audit Committee to oversee key internal auditor activities including actuarial parallel valuations.

In November 2015, the Board selected a third-party actuarial firm, Buck, to provide the parallel valuation and certification services to the Board. Buck has completed the parallel valuation and certification services for the contracting public agency plans as of June 30, 2017. This activity represents the completion of Task 4 of Contract 2015-8123.

Analysis

Buck reviewed the actuarial assumptions and methods used in the public agency valuations and concluded that the assumptions used in the public agency valuations are reasonable and the methodology used to select these assumptions is appropriate and consistent with the guidance provided in ASOP 27 and 35. ASOP 27 discusses the selection of economic assumptions for the measurement of pension liabilities and ASOP 35 discusses the selection of demographic assumptions for the measurement of pension liabilities.

Buck also completed parallel actuarial valuations for 20 of the public agency plans and compared their key valuation results to those of the corresponding 20 public agency plans published in the CalPERS valuation reports. Specifically, CalPERS provided a list of the 10 largest public agency plans, and Buck selected an additional 10 public agency plans using a random sampling technique. Buck produced valuations for each of the 20 plans using ProVal[®] valuation system and compared their key results (normal cost, actuarial accrued liability, present value of benefits, present value of future salary) to the actuarial valuation reports produced by the CalPERS actuarial staff:

- For the 10 largest public agency plans, all of Buck's calculations for the key results differed by less than 5 percent from the corresponding results reported by CalPERS actuarial staff.
- For the 10 randomly selected public agency plans, four had discrepancies greater than 5 percent between Buck's and CalPERS' calculation of the accrued liabilities.

Buck noted the discrepancies exceeding 5 percent were for small pooled public agencies, specifically those that predominately cover newer, short service employees. The discrepancies were primarily a result of age and service rounding differences between the two valuation systems. However, Buck was able to bring the differences between their and CalPERS calculated values down to within 1 percent of each other by forcing their system to mimic CalPERS approach.

During the parallel valuation and review of the public agency valuations, Buck provided two recommendations to CalPERS:

- Distinguish (where appropriate) between phasing in the impacts of economic assumption changes and phasing in of assumption changes themselves and identify margins for adverse deviations.
- Consider including additional demographic data in pooled public agency valuation reports.

In addition, Buck provided an update to the previous parallel valuation and certification report recommendations for the public agency valuation plans:

- Add information to the reports to meet new ASOP 4: These requirements are effective for measurements made after December 31, 2014.
- Consider revising either the termination decrement tables or the process valuation system uses to draw the probabilities: The issue with the vesting decrement was resolved, though CalPERS continues to use the dual termination decrement approach.
- Consider Including additional demographic data in pooled public agency valuation reports. This recommendation is also noted in the current report.

Budget and Fiscal Impacts

The fee for the parallel valuation and certification of the 2017 annual valuations of contracting public agency plans is \$53,000. Funding is identified within existing budgetary resources.

Benefits and Risks

It is essential to periodically review contribution requirements and funding levels to ensure the ongoing financial soundness of a pension system. The Actuarial Office has divided the retirement plans at CalPERS into three categories: Public Agencies, State and Schools, and Affiliates (Legislators' Retirement System, Judges' Retirement System, Judges' Retirement System II, and the 1959 Survivor Benefit Program). The Board's current independent actuarial firm, Buck performs one parallel valuation for each of the three categories on a rotating three-year cycle. These parallel valuations provide an additional "check and balance" that increases the financial security of the retirement system for its participating members by reducing the risk of undetected errors in actuarial calculations.

Attachments

Attachment 1 – Parallel Valuation and Certification Report CalPERS Public Agency Valuations as of June 30, 2017.

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